

# POLICY NO. 604

## CAPITAL CREDITS



ALFALFA  
ELECTRIC  
COOPERATIVE

### I. OBJECTIVE

To provide a methodology to comply with Article VII, Section 2 of the Bylaws, that will provide for allocation, transfer and payment of the Capital Credits of the Cooperative.

### II. POLICY CONTENT

The Cooperative will use the following guidelines for the allocation, transfer and distribution for all amounts received and receivable from the furnishing of electric energy in excess of the operating costs and expense properly chargeable against the furnishing of electric energy.

### III. PROVISIONS

#### A. Definitions

1. "Patron" shall mean any person, firm, association, cooperative, corporation, trustees, any body politic or subdivision thereof, or any other recognized legal entity who may or may not be a member of the Cooperative, but has received and paid for electric energy furnished by the Cooperative, during any fiscal year.
2. DSC - Debt Service Coverage
3. "Equity Ratio" - Equity to total capitalization

#### B. Spreading of Capital Credits

At the end of each fiscal year, the margins of the Cooperative will be spread to the individual patron's ledger account based upon their contribution to total revenue. In the event that the individual rate classification's contributions to margins become substantially uneven, then capital credits will be spread to the individual patron's ledger accounts based on the patron's total revenue and the margins for their rate classifications.

#### C. General Repayment of Capital Credits

At the close of each fiscal year and in accordance with the Cooperative Bylaws, the Cooperative will make annual repayments of capital credits provided:

1. The Board of Trustees determines that the financial condition of the Cooperative will not be impaired, and that satisfactory progress is being made toward the Cooperative's Equity Management goals as set forth below.

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2. The Cooperative's Equity Management goal shall be to operate with annual revenue and expense levels so as to:
  - a. maintain a DSC ratio of 1.35 or better,
  - b. maintain an Equity Ratio at or above a forty percent level,
  - c. maintain a rate of return on the rate base equal to or greater than the minimum required to achieve the DSC goal and the Equity Ratio goal,
  - d. and to strive to maintain a twenty-year rotation cycle of its capital credits.
  
3. The payment of general and special refunds of capital credits will be authorized annually by the Board of Trustees, and
  - a. will be in total amounts not to exceed twenty-five percent (25%) of the prior year's margin until the actual Equity Ratio is in excess of forty-five percent (45%),
  - b. will be in such larger amounts as approved by the Board of Trustees provided that the Cooperative is achieving its goals,
  - c. and payments to the estates of deceased members made ahead of schedule will be discounted to present value.
  - d. The discretionary powers of such repayment shall remain with the Board of Trustees as stated in the Bylaws and this policy shall not diminish this right.

### D. Transfer of Capital Credits

1. From time to time, patrons request the transfer of capital credits in the Cooperative to a trust, from a past member to a current member or from an entity to another member or non-member by name. In order to facilitate such transfers, it will be the policy of the Board of Trustees of Alfalfa Electric Cooperative, Inc. to allow the patrons to transfer their capital credits within the following guidelines:
  - a. All requests for assignment of existing or future capital credits must be made in writing to the General Manager of Alfalfa Electric Cooperative, Inc.
  - b. The aforementioned written request must be signed by the patron and, in the case of a joint account, must be signed by both parties to the account.
  - c. In the transfer to a "Trust", the membership account of the patron will be transferred into the name of the trustees for the trust, i.e. John Doe and Jane Doe, trustees of the John Doe Trust. The member shall be required to complete and return to the cooperative form "AFFIDAVIT A" that is attached to this policy.

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- E. Treatment of Accrued Capital Credits in the Event of the Death of the Patron Who was a Natural Person
1. When the membership is in the name of the deceased patron and another party as joint tenants, the accrued capital credits will be transferred to the name of the survivor.
  2. When a personal representative of the deceased patron's estate has been duly appointed by a Court with jurisdiction over said estate and such estate is pending, upon the request of such personal representative, accrued capital credits shall be paid to the personal representative upon the Cooperative's receipt of: (a) a certified copy of the order making such appointment, (b) proof that the Letters issued by such Court are in full force and effect, and (c) the tax identification number for such estate.
  3. When a deceased patron leaves no estate and no personal representative is to be appointed, the accrued capital credits shall be paid to each person claiming to be a successor the deceased patron upon the Cooperative's receipt of a duly executed affidavit that complies with Title 58 O.S. §393.
  4. When a final decree of distribution has been entered in the probate or administration of a deceased patron's estate, accrued capital credits shall be paid to the beneficiary or beneficiaries designated to receive such in said final decree of distribution upon the Cooperative's receipt of a certified copy of such decree.
  5. When the membership is in the name of a trustee or multiple trustees, created by one or more grantors, the accrued capital credits shall remain in the name of the designated trustee, trustees and/or co-trustees until the last grantor is deceased. Payment of accrued capital credits shall be made to the successor trustee(s) pursuant to his/her/their request upon the Cooperative's receipt of a memorandum of trust executed by the successor trustee(s) evidencing: (a) the authority of the successor trustee(s) to act, (b) the death of all grantors of the trust, and (c) the payment of all estate taxes attributable to the estate of the deceased grantor, or, that the estate of the deceased grantor was exempt from such estate taxes.
  6. The payment of accrued capital credits as set forth in E (2-5) above shall only be made on present value basis using a seven percent (7%) interest rate with a 20-year period for rotation of Capital in the Capital Credit Computation for present value.

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## IV. RESPONSIBILITY

- A. The Board of Trustees is responsible for the adoption, review and alteration of this policy.
- B. The Management is responsible to the Board of Trustees for the execution of this policy.

Attested: s/ Julie Russell  
Secretary

Previous Revision Date: 7-23-19  
Revised Effective Date: 6-22-12

**AFFIDAVIT A, Trusts**

STATE OF \_\_\_\_\_

COUNTY OF \_\_\_\_\_ ss:

KNOW ALL MEN BY THESE PRESENTS:

I, \_\_\_\_\_, of lawful age, being duly sworn under oath, state as follows:

That I, \_\_\_\_\_, am a member of Alfalfa Electric Cooperative, Inc.

Affiant further states that he/she wishes to transfer all of the Alfalfa Electric Cooperative, Inc. and Western Farmers Electric Cooperative Capital Credits held in his/her name to the following trust:

Further affiant saith not.

\_\_\_\_\_  
Affiant Signature

Subscribed and sworn to before me this \_\_\_\_\_ day of \_\_\_\_\_, 20\_\_.

\_\_\_\_\_  
NOTARY PUBLIC

**(SEAL)**

My commission expires: \_\_\_\_\_

**AFFIDAVIT B, NON-MEMBER TO MEMBER**

STATE OF \_\_\_\_\_

COUNTY OF \_\_\_\_\_ ss:

KNOW ALL MEN BY THESE PRESENTS:

I, \_\_\_\_\_, of lawful age, being duly sworn under oath, state as follows:

That I, \_\_\_\_\_, am no longer a member of Alfalfa Electric Cooperative, Inc.

Affiant further states that he/she wishes to transfer all of the Alfalfa Electric Cooperative, Inc. and Western Farmers Electric Cooperative Capital Credits held in his/her name to the following:

Further affiant saith not.

\_\_\_\_\_  
Affiant Signature

Subscribed and sworn to before me this \_\_\_\_\_ day of \_\_\_\_\_, 20\_\_\_\_.

\_\_\_\_\_  
NOTARY PUBLIC

**(SEAL)**

My commission expires: \_\_\_\_\_

**AFFIDAVIT C, ENTITY**

STATE OF \_\_\_\_\_ )  
COUNTY OF \_\_\_\_\_ )ss:

KNOW ALL MEN BY THESE PRESENTS:

I, \_\_\_\_\_ ("Affiant"), of lawful age and after being duly sworn under oath, state as follows:

I am the (check one)

- Sole proprietor of an entity doing business as \_\_\_\_\_  
Entity name
- General partner of a partnership known as \_\_\_\_\_  
Entity name
- President of a corporation known as \_\_\_\_\_  
Entity name
- Vice President of a corporation known as \_\_\_\_\_  
Entity name
- Manger of a limited liability company known as \_\_\_\_\_  
Entity name
- Sole member of a limited liability company known as \_\_\_\_\_  
Entity name

("the Entity").

The Entity desires to cease being a member of Alfalfa Electric Cooperative, Inc. ("the Cooperative") and the Entity does by these presents transfer all of the Capital Credits of the Entity in and to Alfalfa Electric Cooperative, Inc. and Western Farmers Electric Cooperative to \_\_\_\_\_ ("Transferee").

Transferee name

In consideration of the Cooperative's acceptance of such transfer Affiant, on his/her behalf and on behalf of the Entity, agrees to indemnify the Cooperative from any and all claims and hold the Cooperative harmless from any and all damages resulting from such transfer, including attorney's fees and costs incurred in defense thereof. Affiant and Entity's liability for indemnification pursuant to this paragraph shall be joint and several and the Cooperative is granted a lien against such Capital Credits to secure Affiant and/or Entity's payment of such damages, attorney's fees and costs. In conjunction therewith, in the event the Cooperative receives a claim for such Capital Credits subsequent hereto that is adverse to the interest of Transferee in such Capital Credits, the Cooperative may withhold distribution of such Capital Credits until such dispute is resolved to the satisfaction of the Cooperative in its sole discretion.

Affiant Signature \_\_\_\_\_

Subscribed and sworn to before me this \_\_\_\_\_ day of \_\_\_\_\_, 20\_\_.

Commission Exp.:

\_\_\_\_\_  
Notary Public